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Friday, March 21, 2025

Recession Watch

From the UCLA Anderson Forecast:

UCLA Anderson Forecast Announces a Recession Watch: *Trump Policies, If Fully Enacted, Promise a Recession*

Clement Bohr, Economist, UCLA Anderson Forecast

Recessions are typically the result of a confluence of multiple events, whether disparate or intertwined, that lead to simultaneous contractions in multiple sectors of the economy. Often these involve the financial sector, though that is not necessary. For instance, there were many factors that contributed to the severity of the Great Depression, including a financial crash, an agricultural drought, restrictive monetary policy, and a trade war. More recently, the 1990 recession came about from a contraction in manufacturing, government and residential construction, which were induced by a shock to oil prices, restrictive monetary policy, and a reduction in defense spending following the cold war. A single sector that contracts does not usually suffice in triggering a recession as evidenced by manufacturing in 1995.

As 2025 begins to unfold, there are no signs of an imminent recession. The U.S. added 151,000 jobs in the month of February, and the unemployment rate and unemployment claims remain low at 4.1% and 220,000, respectively. The future also looks bright due to the promises of Artificial Intelligence, smart deregulation, as well as recent public and private investments in infrastructure and technology. However, the stated aim of the Trump Administration is to dramatically transform the U.S. economy in its first 100 days and that begs the question: if fully or nearly fully enacted, could these initiatives cause enough sectors of the economy to contract at the same time and trigger a recession?

The answer appears to be yes, that a downturn could result over the coming year or two, and that we should now be on a Recession Watch. The administration's purportedly desired policies would impose, each in their own way, a significant contraction on different sectors of the economy. Weaknesses are beginning to emerge in households' spending patterns. And the financial sector, with elevated asset valuations and newly introduced areas of risk, is primed to amplify any downturn. What's more, the recession could end up being stagflationary. The main areas of concern are:

The tariff policy and ensuing trade wars will likely lead to a contraction in the manufacturing sector. If fully implemented, the effective tariff rate will rise to similar levels as the Smoot-Hawley tariffs during the Great Depression. These will make it much more costly for American manufacturers to produce, and because of the highly integrated cross-border supply chains, make current operations in some industries uneconomical. The CEO of Ford Motor Company bluntly stated that incoming tariffs would blow a hole in the US car industry. Downstream and upstream sectors, such as retail and agriculture, will likely also contract. During the first Trump administration, parts of the US agricultural industry needed a bailout because of the trade war with China. The size of that trade war looks like pennies relative to what's currently contemplated.

Under the directive of Elon Musk-led DOGE, the public sector, its contractors, and its grant recipients are undergoing a reduction in their workforce that is intended to reach 10 to 15 percent. Given that the size of the extended government is around 10 million people, it will amount to the largest single layoff event in U.S. history of up to a million people. And this contraction will take place in a sector that usually serves as a macroeconomic stabilizer, buffering against any decline in economic activity in the private sector.

The construction sector, which tends to be a powerful propagator of the business cycle, is particularly vulnerable to mass deportations on the scale of many millions of people. Together with agriculture, this sector relies heavily on immigrant labor and already experiences a labor shortage. One consistent empirical finding across deportation events, going as far back as the Chinese Exclusion Act of 1882 and as recently as the Secure Communities program of 2008, is that deportations lead to a loss of jobs for non-immigrants as well. Immigrants occupy distinct occupations from much of the rest of the population, and once deported, they stop spending, paying rent and taxes here.

The exceptional degree of uncertainty surrounding these policies is in and of itself damaging to the economy. The ad-hoc and fitful tariff policy paralyzes firms' investment and hiring decisions as they prefer to wait until there is more clarity surrounding future economic conditions. The threat of deportations paralyzes economic activity in immigrant communities as both workers

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- Emergency Day of Action March 19, Noon
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- Faculty Association Town Hall on Funding Cuts – March 13 at 6pm
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and consumers choose to stay home in fear of capture. DOGE's activities are creating a heightened level of job insecurity for most federal workers. Such income uncertainty, even for those who maintain their jobs, leads to a pullback in spending and a build-up in precautionary savings. As a result, many measures of consumer and business sentiment have turned negative over the last month.

If contractions in manufacturing, government, construction, and their adjacent sectors were to occur at the same time, it would likely spill over to the rest of the economy, broadening the downturn. The extent of this amplification depends on the underlying conditions of the economy, which as it turns out, might be primed to be severe. Why?

The financial sector often serves as a recessionary amplifier and may yet again, as it is currently in an exuberant and possibly irrational state. Even with the current sell-off, equity valuations are at levels that parallel the dot-com bubble. There has been a surge in investment in somewhat speculative assets, like Artificial Intelligence, as well as purely speculative assets, like cryptocurrencies. Corporate bond spreads are near all-time lows, suggesting investors still aren't fully pricing in risk. House prices are near record levels, while the number of new unsold homes on the market is at levels last seen in 2009 and still climbing. Finally, private credit markets have become an important new player in the financial sector, and as of now, the systemic risks they may pose to the system are not well understood and likely underappreciated.

The administration is also playing with fire when it comes to the stability of the financial system. The U.S. debt has reached a level where it will begin to snowball without legislative changes to both taxation and spending. Rather than attempting to pivot us to a sounder fiscal footing, the current budget reconciliation bill in the House is pushing for additional tax cuts without commensurate cuts to spending, which would only worsen the U.S. debt trajectory. In addition, the administration intends to cut the Internal Revenue Service's workforce in half, further crippling its ability to enforce tax collection, which will lead to hundreds of billions in foregone tax revenues, primarily from wealthy tax evaders, and a further erosion of confidence in the value of U.S. debt. While we can find some solace in being the supplier of the world's primary safe asset and medium of exchange, it is naive to assume that we are immune to a sell-off in the treasury market akin to that which occurred in 2022 for the United Kingdom, when it attempted to pursue a fiscally reckless path.

What about inflation? Tariffs will raise prices by directly raising the cost of production and consumption. Deportations will raise prices by creating labor and production shortages, also raising the cost of production. Inflation will thus rise at the same time as the economy would be contracting.

With the most recent February core CPI reading coming in at 3.1 percent, inflation continues to remain elevated following its surge during the COVID-19 pandemic. These inflationary policies will extend the substantial amount of time that the inflation has already spent above its two percent target, implementing the second wave of supply shocks in what mirrors the sequence of supply shocks that led to The Great Inflation of the 1970s. To avoid a repeat of that era, the Federal Reserve would need to aggressively pursue its commitment to the inflation target and may indeed need to raise rates, reinforcing the strength of the economic downturn. Restrictive monetary policy often summons the disapproval of the contemporaneous administration, which is one underlying reason for central bank independence. However, this administration has expressed its desire to reign in the independence of the Federal Reserve. If they attempt and succeed in influencing monetary policy decisions, it will likely lead to interest rates that are too loose to quell inflation, yet too tight to counter the downturn, leading to a longer period of low growth and high inflation, i.e. a stagflation.

Some Administrations inherit the conditions of a looming recession. What's unique about this Recession Watch is that, to a large degree, it primarily depends on incoming policy. A recession is thus entirely avoidable. If the policies outlined above are pared back or phased in more gradually, they are unlikely to trigger one. This Watch also serves as a warning to the current administration: be careful what you wish for because, if all your wishes come true, you could very well be the author of a deep recession. And it may not simply be a standard recession that is being chaperoned into existence, but a stagflation.

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Source: https://www.anderson.ucla.edu/about/centers/ucla-anderson-forecast/recession-watch-2025.

Posted by California Policy Issues at 3:30 AM No comments:

Labels: UCLA

Another Hill Not to Die On

We pointed to some legal hills that UC should not want to die on in prior posts. Those hills involved admissions and we urged that some kind of settlement be reached, given all the other challenges facing UC.

Another hill not to die on is the Frankel et al case against UCLA with regard to issues regarding antisemitism and the events of last spring. You probably saw the recent LA Times story that the Trump administration filed a brief in that case.*

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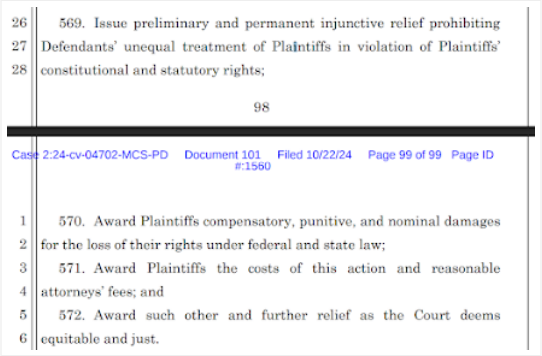
Contributors

- California Policy Issues
- Toby Higbie
- UCLA Faculty Association

If you just read the headline, you might think that the Trump administration is somehow initiating the case or is the plaintiff in the case. Not so! The plaintiffs are mainly some UCLA students. The filing by the Trump administration just says it agrees with the students' complaints. The actual complaint by the plaintiffs runs almost 100 pages with a history of events, exhibits, etc. But when you get to what the plaintiffs are asking, the demands seem to be readily amenable to settlement. Here is the salient portion, i.e., what they are asking from the court:



569. Issue preliminary and permanent injunctive relief prohibiting Defendants' unequal treatment of Plaintiffs in violation of Plaintiffs' constitutional and statutory rights;

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570. Award Plaintiffs compensatory, punitive, and nominal damages for the loss of their rights under federal and state law;

571. Award Plaintiffs the costs of this action and reasonable attorneys' fees; and

572. Award such other and further relief as the Court deems equitable and just.

What seems to be at stake is an agreement by UCLA that it will not deny the plaintiffs their "constitutional and statutory rights" and some monetary damages that will be pennies compared to all the other funding now at risk for reasons unrelated to this case.

You may have noticed that when the full Board of Regents met at UCLA earlier this week on the morning of March 19th, after an hour of public comments and statements by various officials and representatives, they went into closed session to discuss "External Funding Litigation and Legal Issues." What was unusual is that they set aside a full three hours for that private discussion. Normally, there would have been at most a short session and then various committee meetings that morning.

In short, the Frankel et al case is a flea on the back of a much larger elephant. Settle the Frankel case. Deal with the elephant. Don't let the flea aggravate the elephant.

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*The LA Times story is at https://www.latimes.com/california/story/2025-03-18/trump-court-action-supports-jewish-students-in-ucla-of-antisemitism-case. The Frankel et al case is at https://ia600402.us.archive.org/9/items/2-final-hjaa-report.-the-soil-beneath-the-encampments/Amended-Complaint-in-Frankel-v.-Regents-of-the-University-of-California%2010-22-2024.pdf. The government's filing in the case is at https://ia800402.us.archive.org/9/items/2-final-hjaa-report.-the-soil-beneath-the-encampments/United_States_statement_of_interest_-_Frankel_et_al._v._UCLA_508.pdf.

Posted by California Policy Issues at 3:20 AM No comments:

Labels: diversity, politics, UCLA

Thursday, March 20, 2025

UC Found a Hill It Didn't Want to Die On

UC has dropped *required* "DEI" statements for faculty hirings. We have reported on this issue in previous posts. Our view has been that eventually, in some future court decision, either the statements would be watered down - as the old loyalty oaths of the 1950s were - or just outright voided.*

Obviously, the decision was made now with the current goings on in DC firmly in mind. But it was a hill that even had the 2024 election gone the other way, UC would have died on, or at least would have had a near-death experience.

Note that nothing prevents anyone from including in a self-statement any topic as part of their submissions.

From the NY Times:

The University of California said on Wednesday that it would stop requiring the use of diversity statements in hiring, a practice praised by some who said it made campuses more inclusive but criticized by others who said it did the opposite. Diversity statements typically ask job applicants to describe in a page or so how they would contribute to campus diversity. The move away from them, by one of the biggest higher education systems in the United States, comes as the Trump administration escalates an attack on higher education over diversity programming.

For a decade, the 10-campus system was a national leader in using such statements, as universities increasingly came under pressure from those who wanted more diverse student bodies and faculties. "Our values and commitment to our mission have not changed," Janet Reilly, the chair of the system's Board of Regents, said in a statement late Wednesday. "We will continue to embrace and celebrate Californians from a variety of life experiences, backgrounds and points of view." ...

Full story at https://www.nytimes.com/2025/03/20/us/diversity-statements-university-of-california.html.

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*Type "loyalty" into the search engine on this blog for past postings.

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UPDATE: From an email circulated around 3 pm this afternoon:

To: Faculty and Staff

Dear Colleagues:

I write at the request of President Drake to inform you about a decision by the UC Board of Regents to change the University's practices with respect to staff and faculty recruitments. After thoughtful consideration, the Board has directed President Drake to take action to ensure that diversity statements are no longer required for new recruitments.

The Regents determined this announcement was necessary because some programs and departments have required diversity statements as part of hiring processes despite the fact that the University of California has never maintained such a systemwide policy. The requirement to submit a diversity statement may lead applicants to focus on an aspect of their candidacy that is outside their expertise or prior experience. The Regents affirmed that UC's values and commitment to our mission have not changed. We can continue to effectively serve communities from a variety of life experiences, backgrounds, and points of view without requiring diversity statements in the hiring process.

As you know, the University does have a systemwide policy, Academic Personnel Manual (APM) 210-1.d, that enables faculty members who engage in diversity, equity, inclusion, and belonging in their teaching, research, and service to be recognized for these contributions during the academic review process. This policy was developed in close consultation with the UC Academic Senate and will remain in place.

APM - 210 currently provides flexibility to faculty in their review actions to submit, in any form they wish, inclusive academic achievements in teaching, research, and service, and receive due recognition for those contributions. APM – 210 does not require the submission of standalone diversity statements.

Accordingly, faculty members may choose to submit descriptions of relevant academic achievements such as instituting inclusive research practices; teaching approaches that support the success of all students through curriculum design, pedagogy, assessment, and classroom environment; mentoring that supports the advancement and professional development of all students, postdoctoral scholars, and colleagues; and campus or professional service activities that further the University's public mission. The policy was intended to demonstrate the University's commitment to creating a community where people of all backgrounds and points of view can engage, learn, and thrive, and this policy will continue to ensure that outcome.

To be clear, requiring stand-alone diversity statements in recruitment is no longer permitted. If an applicant chooses to refer to these accomplishments in other parts of an application or during interviews and discussions, hiring committees can consider these contributions alongside the applicants' other qualifications.

Consistent with federal and state law, the University should, and will, continue to provide due recognition to prospective or current employees who wish to share how they have contributed to inclusive excellence. The Regents reinforced the importance of the University's policies and practices that are designed to ensure that talented students, staff, and faculty from all groups can access the University and feel welcome.

Please share this message with faculty across the system and with Academic Senate committees. Thank you for your attention to this matter and for all you do for the UC community.

Sincerely,

Katherine S. Newman

UC System Provost and Executive Vice President for Academic Affairs

UC Berkeley Chancellor's Distinguished Professor of Sociology and Public Policy

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Note that the email appears to clarify a) that the dropping of the requirement applies both to hiring and advancements, and b) that nothing prevents candidates from providing information voluntarily on whatever accomplishments and talents they have. The news accounts may not make these points clearly.

Posted by California Policy Issues at 2:22 PM No comments:

Labels: diversity, poli, UC Regents

Commercial Academic Journals

From the Wall St. Journal:

Signs of trouble are turning up at the biggest scientific journals and the publishers that host them. In December, nearly every member of the editorial board of the pre-eminent Journal of Human Evolution walked out on Elsevier, the largest publisher of scientific papers, because of changes the staff said jeopardized the quality of the 53-year-old publication.

A couple of months earlier, in October, nearly two dozen scientists excoriated Scientific Reports, the largest individual journal, in an open letter that accused its publisher, Springer Nature, of failing to "protect the scientific literature from fraudulent and low quality" research. And in the

past two years, Web of Science, an influential index of scholarly literature, delisted at least four high-volume journals for not meeting quality standards and placed four more on hold while it investigates their work.

...In the past decade, every major for-profit publisher has dramatically upped its output, according to a November analysis by a group of scientists who found that scientific publishers printed 47% more papers in 2022 than they did in 2016. "Wiley, Springer and Elsevier are in an articles arms race at the moment," said Dean Smith, director of Duke University Press, naming three top publishers...

Today, most of the best-known journals are published by big, for-profit companies, such as Elsevier and Springer Nature. Institutions purchase subscriptions, typically for bundles of journals, to make the material available to faculty researchers, which can cost a university more than $1 million a year.

In addition, following demands from foundations and government agencies to make the research they fund publicly available, publishers now charge scientists to post "open access" papers outside their paywalls. These "article processing charges" can run from a few hundred dollars to more than $10,000 a paper...

Full story at https://www.wsj.com/business/media/scientific-journals-quality-publishers-6399fc95.

Posted by California Policy Issues at 3:35 AM No comments:

Labels: miscellaneous

More Cash

The state controller continues to report cash flowing into the state above forecast estimates.

Receipts in the period July-February of the 2024-25 fiscal year were ahead of the estimates made in January by $4.2 billion and ahead of the estimates made last June when the current budget was passed by $10.6 billion.

In both cases, the bulk of the overage comes from the personal income tax and probably reflect capital gains from the stock market during the past calendar year.

The overage should be helpful to UC in making the case for its budget request for the coming fiscal year. But as we have noted in past posts, Medi-Cal is apparently running ahead of projections in cost and there is general concern about where the economy is going, uncertainties from the political situation in DC, etc. In addition, the governor's proposal calls for pulling down reserves which in common English means running a deficit (although not in the strange language of California budget-speak).

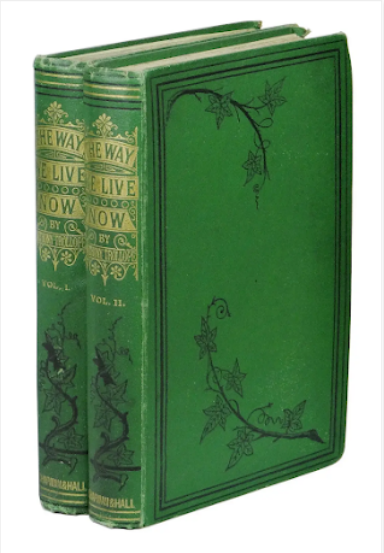
The controller's figures are from:

https://www.sco.ca.gov/Files-ARD/CASH/February2025StatementofGeneralFundCashReceiptsandDisbursements.pdf.

Posted by California Policy Issues at 3:30 AM No comments:

Labels: controller, governor, politics, State Budget, UC budget crisis

The Way We Live Now



From an email received yesterday afternoon:

Dear Bruin Community:

As spring approaches, we want to provide important updates for those planning international travel, whether you are a student leaving for spring break, or faculty or staff traveling for professional or personal reasons. Evolving global incidents and federal travel policies may cause disruptions, so we strongly encourage you to stay informed and review the following guidelines to ensure a smooth and secure journey.

Key Considerations for International Travel

- **Check Travel Advisories:** Review the latest guidance from the U.S. Department of State and other relevant agencies before departure.
- **Ensure Travel Documentation:** Confirm that your passport, visa and any required re-entry documents are valid. For official visa guidance, refer to U.S. Department of State: U.S. Visas.
- **Plan for Visa Appointments and Delays:** Be aware of potential delays at U.S. embassies and consulates. Check visa wait times and plan accordingly.
- **Be Prepared for U.S. Entry Screening:** Some travelers may experience additional screenings upon arrival. Be ready to answer questions about your work, research or return plans.
- **Exercise Caution:** If you are a citizen of a country subject to travel restrictions or geopolitical instability, consider the risks of non-essential travel. Re-entry requirements may change while you are away, impacting your return.

Additional Travel Tips

- Stay informed about **local safety conditions** and follow cultural considerations at your destination.
- **Share your itinerary** with a trusted friend or family member.
- Keep **emergency contact information** readily available.
- Continue **practicing good hygiene**, as flu and other illnesses remain a concern. Take extra precautions if you feel unwell.
- **Keep your phone charged** and stay aware of your surroundings.
- For students who are traveling to **popular spring break destinations**, we encourage you to stay with a trusted group and be mindful of alcohol consumption. Alternate with water and eat beforehand. Avoid mixing alcohol with other substances.

For International Students and Scholars

The Dashew Center for International Students & Scholars will send a separate message with specific guidance, including visa-related updates and re-entry considerations. Please reach out to the Dashew Center for further support.

If you are a UCLA student participating in a specific program that involves international travel, please consult with your supervisor or program director before your departure.

No matter where your plans take you, please be prepared and stay informed. We wish our students a smooth and enjoyable spring break, and hope faculty and staff will find time to refresh before the beginning of spring quarter.

Sincerely,

Darnell Hunt
Executive Vice Chancellor and Provost

Michael J. Beck
Administrative Vice Chancellor

Monroe Gorden, Jr.
Vice Chancellor for Student Affairs

Michael S. Levine
Vice Chancellor for Academic Affairs and Personnel

Posted by California Policy Issues at 3:20 AM No comments:

Labels: diversity, politics, UCLA

Wednesday, March 19, 2025

Freeze

From an email sent today by UC President Drake:

Dear University of California Community:

Over the last few months, the new administration in Washington, D.C., has announced a number of executive orders and proposed policy changes, including ones that threaten funding for lifesaving research, patient care, and education support. These actions affect colleges and universities across the country. Additionally, the 2025–26 California state budget calls for a substantial cut to the University's budget. As one of the most innovative, research-focused public institutions in the nation, these proposed changes would have a particularly profound impact on the University of California.

UC leaders and I are advocating strongly for and collaborating with state and federal elected officials on the University's mission and priorities, alongside our higher education partners across the nation. The University's legal team prepared for this moment and has been working diligently to protect the University and our mission through the courts. We will continue to pursue all appropriate actions and advocacy options available to us moving forward.

These efforts have allowed us to stave off some of the immediate and projected financial impacts — but not all. As we face funding reductions at both the state and federal levels, the Chancellors and I are preparing for significant financial challenges ahead. Today, I write to share several steps we are taking to protect the University and try to ensure its solid financial footing in the long term.

First, we will implement a systemwide hiring freeze to help the University manage costs and conserve funds. I have directed every UC location, including the Office of the President, to prepare financial strategies and workforce management plans that address any potential shortfalls. I have also directed all UC locations to implement cost-saving measures, such as delaying maintenance and reducing business travel where possible. Because every UC location is different, these plans will vary accordingly. But regardless of UC location, every action that impacts our University and our workforce will only be taken after serious and deliberative consideration.

I recognize this is a time of great uncertainty for many in our UC community and in higher education across the country. Throughout our history as an institution and as a nation, we have weathered struggles and found new ways to show up for the people we serve. We will address these challenges, together. I have tremendous confidence in the team that is working on these issues, and in the dedication of our students, faculty, and staff.

Thank you for your continued dedication and service to this institution. The University of California has been a beacon of new knowledge and public service for more than 150 years, and I am truly grateful for all that you do, each day, to continue that legacy.

Sincerely,

Michael V. Drake, M.D.

UC President

Posted by California Policy Issues at 12:01 PM No comments:

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